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6 UNITED STATES DISTRICT COURT  
7 NORTHERN DISTRICT OF CALIFORNIA

8 PHOENIX SOLUTIONS INC.,

No. C 08-00863 MHP

9 Plaintiff,

10 **MEMORANDUM & ORDER**

11 v.

**Re: Matters Related to Discovery Motions**

12 WELLS FARGO BANK, N.A., and WELLS  
FARGO FUNDS MANAGEMENT, LLC.,

13 Defendants.  
14 \_\_\_\_\_/

15 Phoenix Solutions, Inc. (“Phoenix”) brought this action against Wells Fargo Bank, N.A.  
16 (“Wells Fargo”) for infringement of U.S. Patent Nos. 6,633,846, 6,665,640, 7,050,977, and  
17 7,277,854 (collectively, “patents-in-suit”) directed to “speech recognition software.” During the  
18 course of discovery, Phoenix voluntarily produced documents relating to the drafting of the patents-  
19 in-suit, including communications between a named inventor and the prosecuting attorney. Phoenix  
20 later requested that the prosecuting attorney be permitted access to confidential material under the  
21 protective order. Wells Fargo requested that Phoenix produce all documents related to the  
22 prosecution of the patents-in-suit, as well as certain “warning” or “cease and desist” letters sent to  
23 third parties and Phoenix refused on privilege grounds. Now before the court is the issue of the  
24 scope of waiver of attorney-client privilege, the appropriate protective order provisions, and any  
25 applicable “settlement” privilege as to the requested documents. Having considered the parties’  
26 arguments and briefs, and for the reasons detailed below, the court enters the following  
27 memorandum and order. This order serves to memorialize and supplement the court’s partial oral  
28 ruling on the appropriate scope of waiver during the telephonic conference with the parties on  
September 11, 2008.

1 BACKGROUND

2 I. The Scope of Waiver Issue

3 The facts relevant to the instant motion were reviewed in part during the September 11th  
4 telephonic conference and therefore, only a summary is necessary here. Several months ago,  
5 Phoenix served its Initial Disclosures on Wells Fargo pursuant to Federal Rule of Civil Procedure  
6 26(a). Contained within that production were several drafts of the specification of the patents-in-suit  
7 prior to the filing date of the applications in the U.S. Patent and Trademark Office (“USPTO”) and  
8 several documents reflecting communications between a named inventor on the patents and  
9 Phoenix’s principal, Dr. Ian Bennett, and J. Nicholas Gross, outside patent counsel, relating to the  
10 drafting of the applications prior to filing, which eventually issued as the patents-in-suit. Trojan  
11 Dec. Re Scope of Waiver (“First Trojan Dec.”), ¶ 2, Exh. 1. The communications included emails  
12 discussing the receipt of documents to consider when drafting the patent application, emails  
13 discussing drafts and revisions of the specification portion of the application, and comments in the  
14 drafts that suggest making reference to certain patents, articles and prior art references. Id. at  
15 PHO006213–6216, PHO006219-6351.

16 As a result of that production, Wells Fargo requested that Phoenix produce all such  
17 communications between Dr. Bennett and attorney Gross. Joint Case Management Statement 2:17-  
18 21. Phoenix refused, on the grounds of attorney-client privilege. Id. Wells Fargo now claims that  
19 Phoenix has waived the privilege for all communications on the subject matter of the substance of the  
20 disclosed documents, including that which relates to: (1) the drafting and editing of the specification  
21 of the patents, including the scope and content of the prior art; (2) the inventorship of the patents; (3)  
22 the novelty of the patents; (4) how to uncover prior art, (5) how prior art applies to the invention; and  
23 (6) how to draft the claims to avoid prior art. See First Trojan Dec. ¶ 3, Exh. 2; Maitra Dec., Exh. 5.

24 Phoenix argues that Wells Fargo’s request should be denied because it is overly broad and  
25 seeks waiver for documents that are clearly privileged and outside the scope of any subject matter  
26 waiver of such privilege. Specifically, Phoenix contends that attorney-client communications after  
27 the filing date of the patent applications that issued as the patents-in-suit and drafts of the patent  
28 claims (either pre-filing drafts of claims or post-filing claim amendments made during prosecution)

1 are outside the scope of any subject matter waiver based on the original production of  
2 communications that predated the filing of the patent applications. Phoenix contends that the scope  
3 of waiver should be limited to documents that relate to the drafting and editing of the specification of  
4 the patents-in-suit and related communications that deal with matters prior to the filing of the patent  
5 applications. Wells Fargo disagrees with any proposed temporal limitation to the subject matter  
6 waiver. Maitra Dec., Exhs. 5-7.

7 II. The Protective Order Issue

8 A second issue raised by Wells Fargo during the September 11, 2008 telephonic conference  
9 concerns the terms of a stipulated protective order. The parties have come to an impasse on one  
10 provision of a protective order proposed by Wells Fargo and request court intervention. During  
11 negotiations of a stipulated protective order, Phoenix requested that its outside patent prosecution  
12 counsel be granted access to all information, including “attorney’s eyes only” highly confidential  
13 information. Joint Case Management Statement 1:18-20. Gross has been Phoenix’s only counsel on  
14 patent matters for the past nine years: he prosecuted the four patents-in-suit as well as other related  
15 patents and he continues to prosecute continuation applications of the patents-in-suit. Id., 1:20-21,  
16 26-28; Gross Dec. ¶ 2; Paige Dec. Re Protective Order (“First Paige Dec.”) ¶¶ 2-3.

17 Phoenix’s position is that Gross’ input is needed to provide assistance in making strategic  
18 decisions about this litigation. Gross Dec. ¶ 4. Phoenix asserts that it would be greatly prejudiced if  
19 denied the ability to meaningfully rely on the service of its sole patent prosecutor. Bennett Dec. ¶ 3.  
20 Phoenix contends that Wells Fargo would not be prejudiced because it purportedly has no intellectual  
21 property in the area of speech recognition that could be compromised by Gross’ involvement and that  
22 Wells Fargo’s ability to compete in the banking industry would not be impacted by granting Gross  
23 access to its confidential information in this case. See Trojan Dec. Re Protective Order (“Second  
24 Trojan Dec.”), Exh. 2; Gross Dec. ¶ 5.

25 Wells Fargo opposes Phoenix’s request and argues that the protective order should have a  
26 prosecution bar. Wells Fargo asserts that Gross performs the functions that an in-house patent  
27 prosecution counsel would perform for Phoenix. First Paige Dec., Exh. A at 3:5-12, 5:12-17. Wells  
28 Fargo also asserts that Gross has written several letters to Wells Fargo seeking to induce Wells Fargo

1 to take a license to the Phoenix patents and stating that several of Phoenix's pending patent  
2 applications appear to have claims that read upon the system Wells Fargo uses. Id., Exh. B at 3.  
3 Wells Fargo's position is that Phoenix should not be granted access to confidential information about  
4 its system that Gross could use in his continued prosecution of Phoenix patents, e.g., to try to draft  
5 claims in pending patent applications expressly to cover Wells Fargo's system, so as to assert future  
6 Phoenix patents against Wells Fargo. Wells Fargo indicated that it would be willing to allow Gross  
7 access to the requested documents if Gross agreed to cease prosecuting patents for Phoenix during the  
8 litigation and for a period of one year thereafter. Joint Case Management Statement 2:14-16; Def.'s  
9 Brief on Appropriate Protective Order Provisions 7:2-5; Second Trojan Dec., Exh. 1.

10 III. The "Settlement" Privilege Issue

11 Wells Fargo initially raised a supplemental issue in its scope of waiver brief concerning the  
12 nondisclosure and asserted privilege by Phoenix relating to communications between Phoenix and  
13 various third parties, namely, communications accusing third parties of infringing the patents-in-suit.  
14 See Maitra Dec., Exh. 3. Wells Fargo does not believe there is any basis to exclude such "dunning  
15 letters" or "cease and desist letters" from production and requested that the court order that Phoenix  
16 turn over such documents, as well as all documents with third-party companies relating to license  
17 negotiations concerning the patents-in-suit, including Phoenix's stipulation with Intervoice, Inc.  
18 ("Intervoice") in the related Phoenix v. Sony case, 3:07-cv-002112-MHP. During the September 11,  
19 2008 telephonic conference with the parties, the court ordered that Phoenix turn over the initial  
20 letters, along with a privilege log and requested that the parties brief the issue with respect to other  
21 documents.

22 Shortly thereafter, Phoenix timely produced a privilege log to Wells Fargo. Paige Dec. Re  
23 Settlement Privilege ("Second Paige Dec.") ¶ 5, Exh. 4. Phoenix also timely produced various letters  
24 to third parties reflecting offers to license certain of Phoenix's patents. Id., ¶¶ 6-7, Exh. 5. Wells  
25 Fargo asserted that Phoenix should disclose all other communications between Phoenix and third  
26 parties relating to Phoenix's enforcement of the patents-in-suit currently listed as privileged in  
27 Phoenix's log, including all aforementioned responsive communications with Intervoice. Wells  
28 Fargo contends that all of the withheld documents that share the same privilege log description of

1 “letter re: license offer” or “email re: license offer” with the asserted privilege of “settlement” should  
 2 be ordered disclosed, barring any evidence that any of the withheld documents differ from the  
 3 already produced invitations to negotiate.<sup>1</sup>

4 Phoenix states that it is in negotiations with over thirty companies regarding license offers  
 5 related to the patents-in-suit. Trojan Dec. Re Settlement Privilege (“Third Trojan Dec.”) ¶ 2, Exh. 1.  
 6 Phoenix states that it has already produced the only license agreement relating to its patents-in-suit,  
 7 signed by Sony. *Id.*, ¶ 3. Phoenix draws a distinction between license/settlement agreements and  
 8 settlement negotiations, and asserts that documents relating to the negotiations of settlement do not  
 9 impact on substantive patent issues and have no probative value. Phoenix asserts that it need only  
 10 produce the license agreements from the cases it has settled and that it has no obligation to disclose  
 11 communications from any other third parties prior to reaching an agreement and signing a license  
 12 with such parties. Third Trojan Dec. ¶ 3. Phoenix’s position is that all documents relating to  
 13 settlement negotiations are: (1) protected from discovery based on a “settlement privilege,” whose  
 14 policy is embodied in Federal Rule of Evidence 408; and (2) generally not relevant to other litigation  
 15 because any positions taken by the parties prior to any final agreement are insignificant and intrusive  
 16 and will likely not constitute admissible evidence.

## 18 LEGAL STANDARD

### 19 I. Scope of Discovery

20 “Parties may obtain discovery regarding any matter, not privileged, that is relevant to the  
 21 claim or defense of any party . . . .” Fed. R. Civ. P. 26(b)(1). The Rule goes on to state that “[f]or  
 22 good cause, the court may order discovery of any matter relevant to the subject matter involved in the  
 23 action. Relevant information need not be admissible at the trial if the discovery appears reasonably  
 24 calculated to lead to the discovery of admissible evidence.” *Id.* The scope of discovery permissible  
 25 under Rule 26 should be liberally construed; the rule contemplates discovery into any matter that  
 26 bears on or that reasonably could lead to other matter that could bear on any issue that is or may be  
 27 raised in a case. Board of Trustees of Leland Stanford Junior University v. Roche Molecular  
 28 Systems, Inc., 237 F.R.D. 618, 621 (N.D. Cal. 2006) (Patel, J.). However, the broad scope of

1 permissible discovery is limited by any relevant privileges, including the attorney-client privilege.  
 2 See Fed. R. Civ. P. 26(b)(1). Any proposed privilege must promote a public interest that is  
 3 “sufficiently important . . . to outweigh the need for probative evidence.” Trammel v. United States,  
 4 445 U.S. 40, 51 (1980). The recognition of a privilege should be judged on a case-by-case basis and  
 5 weighed against the public interest. Jaffee v. Redmond, 518 U.S. 1, 8 (1996).

6 The scope of discovery is also constrained by Rule 26(c), which explicitly authorizes the  
 7 district court to protect parties from “undue burden or expense” in discovery by ordering “that a trade  
 8 secret or other confidential research, development, or commercial information not be disclosed or be  
 9 disclosed only in a designated way.” Fed. R. Civ. P. 26(c)(7). To obtain a protective order, the party  
 10 resisting discovery or seeking limitations must show “good cause” for its issuance. Fed. R. Civ. P.  
 11 26(c). The burden of demonstrating the need for protection from discovery is placed on the party  
 12 seeking a protective order, not on the party opposing the order. Id.

## 13 II. Attorney-Client Privilege

14 Confidential information disclosed by a client to an attorney to obtain legal assistance is  
 15 protected by the attorney-client privilege. Fisher v. U.S., 425 U.S. 391, 403 (1976); American  
 16 Standard Inc. v. Pfizer Inc., 828 F.2d 734, 745 (Fed. Cir. 1987). An attorney’s communications to a  
 17 client may also be protected by the privilege, to the extent that they contain or are based on  
 18 confidential information provided by the client, or legal advice or opinions of the attorney. U.S. v.  
 19 Margolis, 557 F.2d 209, 211 (9th Cir.1977). The purpose of the attorney-client privilege is to  
 20 encourage “full and frank communication between attorneys and their clients and thereby promote  
 21 broader public interests in the observance of law and the administration of justice.” Upjohn Co. v.  
 22 United States, 449 U.S. 383, 389 (1981). As a general matter, “[a] party is not entitled to discovery  
 23 of information protected by the attorney-client privilege.” Navajo Nation v. Confederated Tribes &  
 24 Bands of the Yakama Indian Nation, 331 F.3d 1041, 1046 (9th Cir. 2003), citing Wharton v.  
 25 Calderon, 127 F.3d 1201, 1205 (9th Cir. 1997).

26 The attorney-client privilege is not absolute. It may be waived “either implicitly, by placing  
 27 privileged matters in controversy, or explicitly, by turning over privileged documents.” Gomez v.  
 28 Vernon, 255 F.3d 1118, 1131 (9th Cir.), cert. denied, Beauclair v. Puente Gomez, 534 U.S. 1066

(2001). “The doctrine of waiver of the attorney-client privilege is rooted in notions of fundamental fairness.” Tennenbaum v. Deloitte & Touche, 77 F.3d 337, 340 (9th Cir. 1996). “Its principal purpose is to protect against the unfairness that would result from a privilege holder selectively disclosing privileged communications to an adversary, revealing those that support the cause while claiming the shelter of the privilege to avoid disclosing those that are less favorable.” Id. at 340–41 (citing 8 J. Wigmore, Evidence § 2327, at 636 (McNaughton rev. 1961)). The disclosure of confidential information resulting in the waiver of the attorney-client privilege constitutes waiver of privilege as to communications relating to the subject matter that has been put at issue. See Winbond Electronics Corp v. Int’l Trade Comm’n, 262 F.3d 1363, 1376 (Fed. Cir. 2001).

### 10 III. Scope of Waiver

11 When either privilege is waived, its scope extends to “all communications on the same subject  
12 matter . . . so that a party is prevented from disclosing communications that support its position while  
13 simultaneously concealing communications that do not.” Stanford v. Roche, 237 F.R.D. 618, 625  
14 (N.D. Cal. 2006) (Patel, J.). This court has further stated that “[t]here is no bright line test for  
15 determining what constitutes the subject matter of a waiver, rather courts weigh the circumstances of  
16 the disclosure, the nature of the legal advice sought and the prejudice to the parties of permitting or  
17 prohibiting further disclosures.” Id. The burden of establishing the existence of the privilege  
18 remains on the person asserting it. See In re Grand Jury Investigation No. 83-2-35, 723 F.2d 447,  
19 450 (6th Cir. 1983) (collecting citations).

## 21 DISCUSSION

### 22 I. Scope of Waiver

23 Wells Fargo seeks the following categories of documents, relating to the subject matter of: (1)  
24 editing and drafting of the specification of the patents, including the scope and content of the prior  
25 art; (2) inventorship of the patents; (3) novelty and/or innovation of the patents; (4) how to uncover  
26 prior art; (5) how prior art applies to the invention; and (6) how to draft the claims to avoid prior art.

27 Phoenix acknowledges that it produced the original documents, i.e., drafts of patent  
28 applications and related communications, voluntarily and not inadvertently and that attorney-client



1 privilege as to those documents had been waived as a result. The court appreciates that the parties are  
2 in agreement that the voluntary disclosure of the attorney communication constituted a waiver of the  
3 privilege as to all other such communications on the same subject matter. This is, of course, black  
4 letter law. However, Phoenix disputes the scope of the subject matter waiver, arguing that it was  
5 narrowly constrained to those documents that had already been produced and those documents alone.  
6 Phoenix asserts that Federal Circuit law controls a determination of the proper scope of waiver.  
7 Indeed, because drafts of patent applications and communications relating to the preparation of filing  
8 patent applications concern discovery issues that occur in the unique context of patent litigation, the  
9 court finds that Federal Circuit law appropriately applies to the scope of waiver of this particular  
10 subject matter. See In re EchoStar Communs. Corp., 448 F.3d 1294, 1298 (Fed. Cir. 2006).  
11 However, the issue of waiver itself and the scope of that waiver as it applies to other documents does  
12 not fall exclusively in the realm of patent law and therefore the court will consider Ninth Circuit law  
13 for that determination. See GFI, Inc. v. Franklin Corp., 265 F.3d 1268, 1272 (Fed. Cir. 2001)  
14 (holding that waiver of privileged information is not a substantive patent issue and regional circuit  
15 law applies).

16 Wells Fargo argues that Phoenix has attempted to use the disclosed drafts and other  
17 documents as both a shield and a sword, that is, to reveal a limited aspect of privileged  
18 communications in order to gain a tactical advantage in litigation. If this were the case, Phoenix  
19 would have broadly waived the privilege as to all other communications relating to the same subject.  
20 See, e.g., Fort James Corp. v. Solo Cup Co., 412 F.3d 1340, 1351 (Fed. Cir. 2005), citing In re Grand  
21 Jury Proceedings, 78 F.3d 251, 255 (6th Cir. 1996) and Matter of Continental Illinois Securities  
22 Litigation, 732 F.2d 1302, 1314 n.18 (7th Cir. 1984). However, it is not apparent on these facts that  
23 Phoenix made the initial disclosures to obtain any advantage or that such disclosure has advantaged  
24 Phoenix in any manner. Moreover, the authorities on which Wells Fargo relies only confirm the  
25 general premise that the waiver applies to the rest of the communications on the same subject matter;  
26 they do not define the scope of the subject matter, which is the issue at hand.

27 Phoenix's attorney argument that it did not subjectively intend to waive the privilege as to any  
28 documents beyond those which have been already disclosed is unpersuasive to make out the



1 necessary element of nonwaiver. It is well settled that a party's failure to protect its privilege can  
2 result in a loss or conscription of that privilege. Fort James Corp., 412 F.3d at 1351, citing Dellwood  
3 Farms, Inc. v. Cargill, Inc., 128 F.3d 1122, 1126 (7th Cir. 1997). This court finds the objective fact  
4 that Phoenix voluntarily disclosed certain drafts of patent applications dispositive in determining that  
5 there has been a subject matter waiver as to all drafts of those patent applications. See id., citing In re  
6 Martin Marietta Corp., 856 F.2d 619, 623 (4th Cir. 1988) (stating that "if a client communicates  
7 information to his attorney with the understanding that the information will be revealed to others, that  
8 information as well as 'the details underlying the data which was to be published' will not enjoy the  
9 privilege"). Phoenix's assertions that: (1) it had already produced all written communications  
10 relating to the drafting of the written description and (2) "it is clear from the documents produced that  
11 Phoenix made no attempt to conceal unfavorable documents" are inadequate. See Pl.'s Brief Re  
12 Scope of Waiver at 4. Phoenix has already produced pre-filing drafts of the written description  
13 portions of the patents-in-suit, not just communications relating to those drafts. Accordingly,  
14 Phoenix must produce all drafts of those applications, irrespective of whether they contain additional  
15 written comments on them. This includes all drafted and edited (e.g., red-lined) portions of the  
16 patent specification, including the background section, the summary of the invention, the figure  
17 legends and the detailed description section, up to the date of filing the patent application(s) with the  
18 USPTO. Because Phoenix's voluntary production was limited to the specification portion of the  
19 applications which contained no patent claims, however, the court will not order Phoenix to produce  
20 any pre-filing drafts of the claims themselves.

21 Phoenix must also produce all written communications relating to the drafting of the patents-  
22 in-suit. The court is unclear as to the intended impact of Phoenix's position that it has already  
23 produced all of its pre-filing communications since "most of the information found in the  
24 communications was already disclosed to the public in the patent application." Id. at 4:4-5. If this  
25 statement is Phoenix' way of attempting to circumvent the production of the actual e-mails between  
26 the prosecuting attorney and the inventor concerning the drafts, it is unacceptable. The court knows  
27 of no authority supporting Phoenix' proposition made during the September 11 telephonic conference  
28 that drafts of patent applications become part of the public record when a patent application is filed.

1 See Transcript of Proceedings, Docket No. 82 (“Tr.”), at 9:5-7. Accordingly, the court finds it  
2 necessary to make clear that those drafts must be produced because of a waiver of the attorney-client  
3 privilege in this case and not any alleged and ill-founded public disclosure requirement.

4       The court likewise fails to comprehend Phoenix’s nonsensical argument that the already  
5 produced documents make clear that Phoenix has not attempted to conceal unfavorable documents.  
6 One action does not speak to the other, unless Phoenix is trying to make an admission that it  
7 considers the already disclosed documents to be harmful to Phoenix, which the court doubts.  
8 However, neither does the court agree with the other end of the spectrum, asserted by Wells Fargo,  
9 that Phoenix’s disclosure of the specification drafts without the claim drafts shows that Phoenix has  
10 chosen to produce only those communications that favor Phoenix.<sup>2</sup> To reiterate, the court does not  
11 find, on these facts, that Phoenix made the initial disclosures to obtain any benefit or that such  
12 disclosure has benefitted or will benefit Phoenix in this litigation and will not extend the scope of  
13 waiver on that basis.

14       In addition to patent application drafts, the court finds that Phoenix’s voluntary disclosure of  
15 communications between the inventor Bennett and the patent prosecutor Gross discussing specific  
16 references waived the attorney-client privilege by placing those communications at issue in this  
17 litigation. The voluntarily produced communications refer to the prior art and the relevance of the  
18 prior art to specific portions of the specification of the patents-in-suit. See, e.g., First Trojan Dec.,  
19 Exh. 1 at PHO006274 (“Here we might mention Dragon, Via-Voice, etc.”) and PHO006274 (“Here  
20 we should talk about Qualcomm and GTE prior art on distributed processing.”). Given those prior  
21 disclosures, it would be unreasonable for counsel to have reasonably expected that subsequent  
22 communications *concerning those specific references* would be assumed to have remained in  
23 confidence. See, e.g., Weil v. Investment/Indicators, Research & Management, Inc., 647 F.2d 18, 24-  
24 25 (9th Cir. 1981) (explaining the general principle that disclosure does not necessarily amount to  
25 waiver of the privilege but it does extinguish the element of confidentiality that one must show in  
26 order to claim the privilege). The court finds that the subject matter waiver, in terms of a loss of  
27 expected confidentiality, reasonably extends to all further documents or communications between the  
28 named inventor and the prosecuting attorney pre- and post-filing, i.e., throughout the prosecution of

1 the patent applications, concerning any of the prior art documents specifically identified by name in  
2 the previously disclosed documents. This waiver extends to all references that are discussed or  
3 mentioned in patent application drafts or other communications between Dr. Bennett and Gross. The  
4 mention need not qualify as a substantive discussion of that prior art for the waiver to apply; a mere  
5 listing of the document by name in a sentence is enough to waive that communication and any direct  
6 responses thereto. However, if said references were named merely by being listed as an attachment  
7 to a written communication and are not discussed elsewhere in the communication, the waiver does  
8 not extend to those communications or attachments.

9       Aside from specifically named references, the subject matter waiver is of limited temporal  
10 nature. The court is mindful that too broad an application of the rule of waiver requiring unlimited  
11 disclosure could very well destroy the purpose of the privilege itself. See, e.g., Weil, 647 F.2d at 25  
12 (finding waiver “only as to communications about the matter actually disclosed”). The court will not  
13 hold the waiver to extend to all communications relating to prior art references between the inventor  
14 and the attorney. At issue, therefore, is the temporal scope of the partial waiver. The court finds it is  
15 a reasonable belief that the disclosure of communications and documents related to the prosecution of  
16 the patents-in-suit between the inventor and the attorney be made within the confines of the attorney-  
17 client relationship and under circumstances from which it may reasonably be assumed that the  
18 communication will remain in confidence. Accordingly, Phoenix did not waive any privilege with  
19 respect to post-filing materials, including communications regarding the prosecution of the patent  
20 applications, analysis of the rejections by the Examiner, strategies for claim amendments, drafts of  
21 actual claim amendments and related arguments, etc. Although such documents may well be at the  
22 heart of one of the disputes between the parties, as Wells Fargo contends, that fact is not dispositive.  
23 There is a fundamental divide between patent drafting and patent prosecution that cannot reasonably  
24 be bridged by the extension of a waiver, at least on the facts in this case.

25       With respect to the other categories of documents for which Wells Fargo asserts the privilege  
26 has been waived, the court does not find waiver as to any documents that specifically relate to the  
27 inventorship of the patents or the novelty and/or innovation of the patents. The court does find a  
28 waiver, however, of documents relating to general methodology for uncovering prior art and

1 processes for searching and discovering prior art and how to draft the claims to avoid prior art, based  
2 on the voluntary disclosure of documents relating to this subject matter. See, e.g., First Trojan Dec.,  
3 Exh. 1 at PHO006215. This waiver does not open the door, however, to substantive discussions of  
4 how a particular prior art reference applies to the invention unless that specific reference has been  
5 identified by name, and then all communications regarding that prior art reference must be disclosed.

6 In summary, the court finds that Phoenix did not waive any privilege with respect to either  
7 pre- or post-filing drafts of the claims themselves, nor did Phoenix waive any privilege with respect  
8 to post-filing strategy and analysis regarding the prosecution of those claims, except for specific  
9 instances in which the previously disclosed named prior art is discussed or referenced. The court  
10 hereby orders Phoenix to produce all responsive documents within the scope of the waiver so defined.

11 II. Protective Order

12 Rule 26(c) of the Federal Rules of Civil Procedure governs protective orders. In the Ninth  
13 Circuit, issues concerning the scope of protective orders for confidential information entails a  
14 balancing test of the conflicting interests between the protection of Rule 26(c) and the broad mandate  
15 of the admissibility of information in discovery conferred by Rule 26(b)(1) of the Federal Rules of  
16 Civil Procedure. See, e.g., Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1472 (9th Cir.  
17 1992), cert. denied, 506 U.S. 869 (1992) (holding that courts must balance the risk of inadvertent  
18 disclosure of trade secrets to competitors against the risk that the protection of such confidential  
19 information will impair prosecution of plaintiff's claims). In this case, Phoenix argues that denying  
20 its prosecution counsel from access to documents designated as highly confidential under the terms of  
21 the protective order will greatly hinder Phoenix's ability to prosecute its claims. Phoenix contends  
22 that granting its prosecution counsel access to confidential information will not compromise Wells  
23 Fargo's competitive advantage because the parties are not in direct competition in any industry  
24 related to the patents-in-suit. Phoenix further argues that because Wells Fargo has not asserted any  
25 proprietary position, in terms of having its own patents in the area of speech recognition, it is highly  
26 unlikely that any confidential information accessed by Gross would be usable by Gross to harm Wells  
27 Fargo. See Trojan Dec., Exh. 2; Gross Dec. ¶ 5.

28

1       Setting aside the issue of prejudice to Phoenix for the moment, the court first considers the  
2 substantive argument that Wells Fargo essentially has no basis for asserting the protective order  
3 against Phoenix's outside prosecution counsel. This argument fails to withstand scrutiny for a  
4 number of reasons. First, because Gross is currently involved in prosecuting continuation  
5 applications of the patents-in-suit, the court finds it unrealistic to expect Gross to be able to wholly  
6 compartmentalize his knowledge of Wells Fargo's confidential information and not let it influence  
7 his current and ongoing prosecution duties to Phoenix. To hold otherwise would place Gross in the  
8 "untenable position" of having to limit his counsel to his client with respect to ongoing prosecution  
9 strategies lest he improperly or indirectly reveal information obtained from Wells Fargo concerning  
10 its alleged infringement of the patents-in-suit. See Brown Bag, 960 F.2d at 1471.

11       Second, the fact that Wells Fargo and Phoenix are not direct competitors hardly forecloses the  
12 inquiry. Phoenix's allegation that Wells Fargo does not make or sell speech recognition systems  
13 awkwardly sidesteps the fact that Wells Fargo uses speech recognition systems. It is for this very  
14 reason that Wells Fargo has been brought to the table in this litigation. Thus, the very fact that Wells  
15 Fargo is being sued by Phoenix for infringement of the patents-in-suit indicates that Phoenix believes  
16 the parties have at least some overlapping interest in the same industry. This belief, be it meritorious  
17 or not, is one that could certainly affect the competitive nature of Wells Fargo's business, as  
18 discussed further below. At a minimum, the court finds that Wells Fargo's concern that Gross could  
19 use the knowledge gained in this litigation to prosecute future related patents to Wells Fargo's  
20 disadvantage is valid and deserving of protection.

21       Phoenix's reliance on U.S. Steel Corp. v. United States, 730 F.2d 1465 (Fed. Cir. 1984) to  
22 conclude that there is no automatic exclusion of prosecution counsel from assisting in the litigation of  
23 a prosecution client serves to set up a straw man. In U.S. Steel, the Supreme Court concluded that a  
24 court should examine the factual circumstances of any counsel's relationship, outside and in-house  
25 counsel alike, to the party demanding access. Id. at 1468. Wells Fargo never sought to disqualify  
26 Phoenix's prosecution counsel from an active role in this litigation as a matter of course. Wells  
27 Fargo's brief explicitly stated that it was not advocating a *per se* bar on patent prosecutors assisting  
28 with litigation but rather a selective and specific bar based on the factual circumstances surrounding

1 Gross' involvement with Phoenix in the relevant field of the present litigation and his continued  
2 prosecution of patents claiming priority and benefit from the patents-in-suit, all of which is consistent  
3 with the case law cited by Phoenix.<sup>3</sup>

4 Furthermore, a crucial factor in the U.S. Steel case was whether in-house counsel was  
5 involved in "competitive decision-making;" which the Court explained meant advising on business  
6 decisions "made in light of similar or corresponding information about a competitor." Id. at 1468 n. 3.  
7 In this case, Wells Fargo's concern is that Gross' ongoing involvement in the prosecution of  
8 continuation applications of the patents-in-suit leave open the door to permitting him to tailor the  
9 claims in the continuation applications to cover specific, known activities that are revealed to him  
10 through the course of discovery in this litigation. The court is well aware that continuation  
11 applications allow patentees and their prosecution counsel the opportunity to monitor the marketplace  
12 and respond by drafting and prosecuting claims that cover discovered activities. In this vein, several  
13 courts have concluded that patent prosecution is, by its very nature, a form of competitive decision-  
14 making because patent attorneys can control the nature and scope of a patented invention. See, e.g.,  
15 In re Papst Licensing, 2000 WL 554219, \*3 (E.D. La. 2000); Mikohn Gaming Corp. v. Acres Gaming  
16 Inc., 50 U.S.P.Q.2d 1783, 1784 (D. Nev. 1998). Other courts have extended the conclusion to hold  
17 that patent counseling is also a form of competitive decision-making if it relates broadly to the scope  
18 of a patented invention. See, e.g., Chan v. Intuit, Inc., 218 F.R.D. 659, 661-662 (N.D. Cal. 2003) ("if  
19 advice related to patent prosecution is defined as competitive decision-making . . . then advice on the  
20 scope of patent claims must also be defined as competitive decision-making.").

21 Based on the foregoing logic, the court finds that Gross is indubitably involved in the sort of  
22 decision-making that disqualifies him from having access to Wells Fargo's confidential information.  
23 This inquiry is far simpler on the present facts than in cases that grapple with the risk of inadvertent  
24 disclosure, such as Brown Bag and Mikohn. Here, the court need not consider how realistic it may or  
25 may not be to expect the prosecutor's knowledge of the defendant's technology will not influence his  
26 current and ongoing prosecution duties to his client, because of Phoenix's explicit acts. Phoenix has  
27 already crossed the line and used Gross for more than just patent prosecution in this case—Gross  
28 wrote several letters to Wells Fargo seeking to induce Wells Fargo to take a license to the Phoenix

1 patents, stating that “[s]everal of [Phoenix’s] pending publications also appear to have claims which  
2 read on your system. . .”. See First Paige Dec., Exh. B at 3. Pending publications contain patent  
3 claims that are in the midst of prosecution and can be amended at any time up until patent issuance.  
4 Phoenix has effectively stipulated that it is trying to get future issued claims that read upon the  
5 technology used by Wells Fargo. Under these circumstances, the court finds disingenuous Phoenix’s  
6 argument that Brown Bag and other cases relied on by Wells Fargo are inapposite because they  
7 involve direct competitors, where the fear of inadvertent disclosure is warranted. Gross’ letters  
8 provide a formal and explicit written assurance that the fear of disclosure is warranted in this case and  
9 so the case law applies.

10       Having determined that Wells Fargo has a valid risk of harm concerning the disclosure of its  
11 confidential information to Phoenix, the court must now balance this against the risk that the  
12 protection of such confidential information will impair the prosecution of Phoenix’s claims. Phoenix  
13 argues that such terms would effectively preclude Gross from assisting Phoenix with this litigation  
14 and Phoenix asserts it would be greatly prejudiced if denied the ability to rely on the service of its  
15 only patent prosecution attorney for the remainder of the case. Phoenix counters that Wells Fargo  
16 would not suffer anything more than minor or speculative harm because the parties are not in direct  
17 competition and whatever information Gross receives could not be used for anticompetitive purposes  
18 to harm Wells Fargo. Phoenix further argues that because Wells Fargo has not asserted any  
19 proprietary position, in terms of having its own patents in the area of speech recognition, it is highly  
20 unlikely that any confidential information accessed by Gross would be usable by Gross to harm Wells  
21 Fargo.

22       The court is not persuaded by any of these arguments. The case law requires restricting  
23 Gross’ access to confidential information in this litigation. Moreover, Phoenix has put itself in harms  
24 way by using Gross for more than patent prosecution already. This is not a case that hinges on the  
25 extent of good faith Gross might exercise in parceling out his knowledge of Wells Fargo’s secret  
26 technology from his prosecution and related counseling duties to Phoenix. Pandora’s Box has  
27 already been opened and Phoenix cannot continue to rely on Gross in the manner to which it has been  
28 come accustomed. The court finds the potential harm to Wells Fargo from inadvertent or advertent



1 disclosure of its confidential information outweighs the hardship that would befall Phoenix if its  
2 prosecution counsel were disqualified or restricted to some extent in this case.

3       The court leaves the choice to Phoenix. If it wishes to continue to retain the services of Gross  
4 as patent prosecution counsel, a prosecution bar must be inserted in the protective order. However, if  
5 Phoenix firmly believes it would be unduly depriving itself of the ability to press its claims in this  
6 litigation without the assistance of Gross, Phoenix has the option to have Gross cease prosecuting  
7 patents for Phoenix during the litigation and for a period of one year thereafter, as has been proposed  
8 by Wells Fargo. The court finds this length of time reasonable and its subject matter scope  
9 appropriate given the size of the company and the related field of Phoenix's other patents and patent  
10 applications. See, e.g., Chan, 218 F.R.D. at 662 (limiting bar to prosecution activities for counsel  
11 receiving confidential information until two years after trial); Interactive Coupon Marketing Group,  
12 Inc. v. H.O.T! Coupons, L.L.C., 1999 WL 618969 at \*4 (N.D. Ill. 1999) (limiting prosecution bar  
13 until one year after conclusion of the litigation); Davis v. AT&T Corp., 1998 WL 912012 at \*3  
14 (W.D.N.Y. 1998) (limiting bar to prosecuting patents in the subject field until two years after  
15 termination of the litigation); Medtronic, Inc. v. Guidant Corp., 2001 WL 34784493 at \*5 (D.Minn.  
16 2001) (limiting prosecution bar for one year).

17 III. Settlement Privilege

18       Phoenix has produced to Wells Fargo over thirty letters Phoenix sent to third-party companies  
19 reflecting initial offers to license certain of Phoenix's patents. Phoenix asserts that it is currently  
20 engaged in licensing negotiations with several of those companies and has refused to produce further  
21 documentation relating to settlement discussions. Wells Fargo seeks to compel production of all of  
22 Phoenix's communications with the third-party companies relating to license/settlement negotiations  
23 concerning the patents-in-suit, including documents relating to Phoenix's enforcement of the patents-  
24 in-suit that are currently listed as privileged in Phoenix's privilege log as well as responsive  
25 communications relating to Phoenix's stipulation with Intervoice, which are not logged. Phoenix  
26 contends that the information sought is not discoverable because it is protected under a settlement  
27 privilege.

28

1 The scope of discovery permitted by the Federal Rules of Civil Procedure is very broad.  
2 Hickman v. Taylor, 329 U.S. 495, 507 (1947). Discovery is only limited to information that is not  
3 privileged and that is relevant to the claim or defense of any party. Fed. R. Civ. P. 26(b)(1).  
4 “Relevant information need not be admissible at trial if the discovery appears reasonably calculated  
5 to lead to the discovery of admissible evidence.” Id. Phoenix argues that the information sought by  
6 Wells Fargo is both privileged and not relevant to this litigation. Phoenix’s position is that it has no  
7 obligation to disclose communications from any other third parties prior to reaching an agreement  
8 and signing a license with such parties, because all documents relating to settlement negotiations are:  
9 (1) protected from discovery based on a “settlement privilege,” whose policy is embodied in Federal  
10 Rule of Evidence 408; and (2) generally not relevant to other litigation because any positions taken  
11 by the parties prior to any final agreement are insignificant and intrusive and will likely not constitute  
12 admissible evidence. Because the issue of relevance is a simpler one in this case, the court addresses  
13 Phoenix’s arguments in reverse order.

14 A. Relevance

15 Phoenix draws a distinction between license/settlement agreements and settlement  
16 negotiations, and asserts that documents relating to the negotiations of settlement do not impact on  
17 substantive patent issues and have no probative value. Wells Fargo disagrees, arguing that Phoenix’s  
18 correspondences with third parties that it has accused of infringement and made offers to license its  
19 patents are relevant because they could be material to several aspects of the merits of this case.  
20 Specifically, Wells Fargo argues that Phoenix’s communications are relevant to show what Phoenix  
21 believes infringes the patents-in-suit, what Phoenix would consider a reasonable royalty rate for the  
22 patents-in-suit, and that third-party responsive communications could potentially reveal evidence of  
23 prior art systems that existed before Phoenix filed its patents. In its supplemental brief Wells Fargo  
24 also argues that Phoenix’s communications could also possibly contain admissions against interest if  
25 Phoenix makes infringement assertions to third parties in a manner that contradicts its assertions in  
26 this litigation.

27 Based on the record at hand, the court is hard pressed to conclude that the information sought  
28 by Wells Fargo is not reasonably calculated to lead to the discovery of admissible evidence and,

1 hence, is irrelevant to the litigation. There are a multitude of ways in which Phoenix's  
2 correspondences with third parties related to license negotiations could be relevant to this litigation,  
3 as so noted by Wells Fargo. Fundamentally, the third-party negotiations could help Wells Fargo  
4 ascertain the extent of its liability to Phoenix and to formulate an appropriate litigation strategy. This  
5 court is not persuaded by Phoenix's arguments that licensing or settlement negotiations themselves  
6 are not relevant because the final agreement reflects the culmination of the negotiations and that  
7 positions taken by the parties prior to reaching a final agreement are therefore insignificant. Nothing  
8 in the record before the court suggests that the information contained in negotiation communications  
9 would be duplicative or cumulative of other discovery that Phoenix has already provided to Wells  
10 Fargo. Indeed, Phoenix admits it has only reached a final agreement with one party. What is more,  
11 Phoenix's position fails to acknowledge that licensing and infringement positions may be taken and  
12 discarded or otherwise changed over time based on a myriad of extrinsic factors that could well be  
13 relevant to another party accused of infringement. See, e.g., In Georgia-Pacific Corp. v. U.S.  
14 Plywood Corp., 318 F.Supp. 1116, 1120 (S.D.N.Y. 1970) (including as evidentiary facts relevant in  
15 royalty determinations for patent licenses the patentee's marketing program to maintain his  
16 monopoly, the royalties received by the patentee from other licensees and the non-exclusive bounds  
17 of the license).

18 Phoenix appears to be conflating the standard for relevance as a discovery threshold with the  
19 standard for the admissibility of evidence at trial. "Relevancy for discovery is flexible and has a  
20 broader meaning than admissibility at trial." See Eggleston v. Chicago Journeymen Plumbers' Local  
21 Union No. 130, U.A., 657 F.2d 890, 903 (7th Cir. 1981). The court considers this further in its  
22 privilege analysis, below. But, even if the third-party negotiations addressing the amount of liability  
23 were to be protected by a privilege, the court is still unwilling to close the door to the reasonable  
24 possibility that admissible evidence will be generated by the dissemination of third-party  
25 licensing/settlement negotiations. See, e.g., U.S. v. American Soc. of Composers, Authors and  
26 Publishers, 1996 WL 157523, \*2 (S.D.N.Y. 1996) (noting the extensive use at trial of documents  
27 concerning past fee negotiations and finding such third-party information "potentially relevant under  
28 the liberally read standards of Fed. R. Civ. P. 26(b)(1)"). The court need not determine at this time

1 whether the evidence will actually end up being admissible in this litigation. See Abbott Diabetes  
2 Care Inc. v. Roche Diagnostics Corp., 2007 WL 4166030, \*3 (N.D.Cal. 2007) (“The question before  
3 the Court today is the discoverability, not the admissibility, of the settlement agreement.”) This court  
4 finds that, at a minimum, discovery of licensing/settlement negotiations is reasonably calculated to  
5 lead to relevant, admissible evidence. Accordingly, the requested documents are discoverable so  
6 long as they are not privileged.

7 B. Privilege

8 The court disagrees with Phoenix’s contention that Federal Circuit law controls this inquiry.  
9 Because this discovery issue is not one that occurs in the unique context of patent litigation, and  
10 because settlement discussions are themselves not a substantive patent law issue, the court finds that  
11 the law of the Ninth Circuit sets the standard to evaluate the adequacy of the asserted privilege. See,  
12 e.g., Dorf & Stanton Communs., Inc. v. Molson Breweries, 100 F.3d 919, 922 (Fed. Cir. 1996)  
13 (“Because an order compelling discovery is not unique to patent law, we agree that [regional circuit]  
14 law must be considered.”). Phoenix’s admission that settlement negotiations themselves “do not  
15 impact on substantive patent issues” corroborates this finding. Pl.’s Brief Re Settlement Privilege  
16 3:27-4:1.

17 In the Ninth Circuit, a broad scope of discovery is favored because “wide access to relevant  
18 facts serves the integrity and fairness of the judicial process by promoting the search for truth.”  
19 Epstein v. MCA, Inc., 54 F.3d 1422, 1423 (9th Cir. 1995). According to Phoenix, several courts  
20 have held that negotiations leading up to settlement are not discoverable, the rationale being that  
21 allowing disclosure could chill settlement negotiations and ultimately settlement. Phoenix argues that  
22 under the “settlement privilege,” parties in negotiation should be allowed to engage in an open  
23 discussion without fear that the negotiations will be discoverable. Phoenix’s argument, essentially, is  
24 that the settlement negotiations are presumptively inadmissible at trial under Rule 408 of the Federal  
25 Rules of Evidence.<sup>4</sup> However, the cases on which Phoenix relies are distinguishable from the instant  
26 case involving third-party patent license negotiations, in that they involve situations where the parties  
27 held a legitimate and explicit expectation that the settlement documents would remain confidential.  
28 See, e.g., Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc., 332 F.3d 976, 978 (6th Cir.

2003) (holding privileged settlement negotiations that occurred under a confidentiality order); Abbott Diabetes Care, 2007 WL 4166030 at \*1 (holding that portions of a settlement agreement could be redacted to preserve the parties' expectation of confidentiality); American Soc. of Composers, 1996 WL 157523 at \*2 (holding that third-party license negotiating statements must be produced but could be partially redacted to address the confidentiality expectations of all parties and third-party concerns about the context of disclosure in another action). A bilateral (or multilateral) expectation of confidentiality is what forms the essential basis of the pro-settlement policies underlying Rule 408 and is currently absent from the present record involving licensing negotiations with third-party companies.

Rule 408 of the Federal Rules of Evidence states that evidence of statements made in compromise negotiations are "not admissible on behalf of any party, when offered to prove liability for, invalidity of, or amount of a claim that was disputed as to validity or amount, or to impeach through a prior inconsistent statement or contradiction . . . ." Fed. R. Evid. 408(a). The prohibition on using compromise negotiations is therefore limited and the rule does not bar the admission of such negotiations for other permissible purposes. Indeed, subdivision (b) of the rule provides that "[t]his rule does not require exclusion if the evidence is offered for purposes not prohibited by subdivision (a)" and thereafter provides examples of various permitted uses, including proving a witness's bias or prejudice and negating a contention of undue delay. Fed. R. Evid. 408(b). Thus, at least some communications made in furtherance of licensing/settlement negotiations are discoverable, as Rule 408 permits their use in some aspects of trial.

The court recognizes the right of parties to contract for confidential settlement terms and the important policies underlying Federal Rule of Evidence 408 to encourage settlement. However, Rule 408 does not warrant protecting settlement negotiations from discovery. On its face, the rule applies to the admissibility of evidence at trial, not to whether evidence is discoverable. See, e.g., Morse/Diesel, Inc. v. Fidelity and Deposit Co., 122 F.R.D. 447, 449 (S.D.N.Y. 1988) (holding that Rule 408 only applies to the admissibility of evidence at trial and does not protect such evidence from discovery). Even the cases Phoenix cites acknowledge this basic distinction. See, e.g., American Soc. of Composers, 1996 WL 157523 at \*1 ("The rule limits the admissibility of settlement terms or

1 proposals and of other representations made in the course of settlement discussions, but it does not  
2 purport to preclude discovery of such agreements or statements.”)

3       The Advisory Committee Notes to Rule 408 explain that “evidence, such as documents, is not  
4 rendered inadmissible merely because it is presented in the course of compromise negotiations if the  
5 evidence is otherwise discoverable. A party should not be able to immunize from admissibility  
6 documents otherwise discoverable merely by offering them in a compromise negotiation.” See Fed.  
7 R. Evid. 408, advisory committee’s note. Moreover, evidence of facts disclosed during compromise  
8 negotiations is not inadmissible by virtue of having been first disclosed in the compromise  
9 negotiations. Accordingly, facts regarding the very occurrence of Phoenix’s threats to third parties  
10 are not inadmissible, nor is the substance of settlement discussions *per se* irrelevant to a proceeding  
11 in federal court, because Rule 408 itself authorizes the admission into evidence of such materials  
12 except for limited purposes. Indeed, courts have reasoned that Rule 408 “does not require any special  
13 restriction on Rule 26 because discovery rules do not affect admissibility.” Bank Brussels Lambert v.  
14 Chase Manhattan Bank, 1996 WL 71507, \*3 (S.D.N.Y. 1996). Notably, the 2006 amendment to Rule  
15 408 was made with the intent to retain the extensive case law finding the rule inapplicable when  
16 compromise evidence is offered for a purpose other than to prove the validity, invalidity, or amount  
17 of a disputed claim. See Fed. R. Evid. 408, advisory committee’s note, citing, e.g., Coakley &  
18 Williams v. Structural Concrete Equip., 973 F.2d 349 (4th Cir. 1992) (evidence of settlement is not  
19 precluded by Rule 408 where offered to prove a party’s intent with respect to the scope of a release);  
20 Athey v. Farmers Ins. Exchange, 234 F.3d 357 (8th Cir. 2000) (admitting evidence of settlement offer  
21 by insurer to prove insurer’s bad faith); Uforma/Shelby Bus. Forms, Inc. v. NLRB, 111 F.3d 1284  
22 (6th Cir. 1997) (threats made in settlement negotiations were admissible; Rule 408 is inapplicable  
23 when the claim is based upon a wrong that is committed during the course of settlement  
24 negotiations).

25       The cases upon which Phoenix relies to argue that the public policy behind Rule 408 is to  
26 favor compromise and settlement of disputes by shielding a party’s negotiating strategies or tactics do  
27 not comport with the present facts. In this case, Wells Fargo is seeking production of documents  
28 reflecting licensing negotiations between Phoenix and other third-party companies accused of

1 infringing the patents-in-suit. The potential that damaging disclosures may interfere with the  
2 third-party negotiators' candor in such discussions or otherwise discourage third-parties from  
3 venturing into licensing/settlement talks is not sizeable. If anything, the disclosure of such  
4 documents could assist the third parties in fostering discussions with other alleged infringers and  
5 helping them to ascertain the extent of their own relative liability to Phoenix.

6 In a sleight of hand, Phoenix argues that any and all evidence of settlement negotiations  
7 should be protected because its disclosure could interfere with the party's candor or willingness to  
8 venture into settlement discussions. However, Phoenix's statement, which was copied verbatim from  
9 American Soc. of Composers, 1996 WL 157523 at \*2, omitted the beginning of the sentence which  
10 reads "[d]epending upon the nature of the information . . . ." The court reminds Phoenix that Wells  
11 Fargo seeks the documents during the course of discovery and is not requesting admission of  
12 evidence at trial. Phoenix has failed to meet its burden to put forth a persuasive case for a settlement  
13 privilege that will protect third-party settlement negotiations from discovery. The court finds no  
14 convincing basis for Phoenix's proposition that its licensing negotiation communications are  
15 protected from discovery by a settlement privilege, embodied in Federal Rule of Evidence 408.

16 Further, the court lifts its previous oral prohibition on third-party contact made during the  
17 September 11, 2008 telephonic conference. If Wells Fargo wishes to seek production of the  
18 negotiation documents that reflect any representations or strategies that were considered by the  
19 third-party companies in response to Phoenix's license offers, Wells Fargo may request such  
20 documents directly from those third parties.

21 Finally, with regard to the Intervoice stipulation, the court reminds Phoenix that it ordered  
22 production of the Intervoice stipulation and all communications Phoenix had with Intervoice's  
23 counsel regarding that stipulation during the September 11, 2008 telephonic conference and expects  
24 Phoenix to comply with this order.



1 CONCLUSION

2  
3 **IT IS ORDERED** that Phoenix shall produce all responsive documents within the scope of  
4 waiver of attorney-client privilege as defined herein.

5 **IT IS FURTHER ORDERED** that the parties, in preparing a stipulated protective order,  
6 shall prohibit dissemination of highly confidential information pertaining to the subject matter of the  
7 patents-in-suit to attorney Gross, unless he agrees to cease prosecuting Phoenix patent applications  
8 during the pendency of this case and for one year after the conclusion of this litigation, including any  
9 appeals. The parties are also ordered to rely to the greatest extent possible on this court's form  
10 protective order.

11 **IT IS FURTHER ORDERED** that Phoenix shall immediately produce (1) all documents  
12 related to the negotiation of licenses of, and licensing of, the patents-in-suit with any third party  
13 including, but not limited to, the parties listed in Phoenix's privilege log; and (2) all documents  
14 related to Phoenix's stipulation with Intervoice in the related Phoenix v. Sony action,  
15 3:07-cv-002112-MHP.

16  
17  
18 Dated: October 22, 2008



MARILYN HALL PATEL  
United States District Court Judge  
Northern District of California

**ENDNOTES**

1  
2 1. In its supplemental brief on Phoenix's "settlement" privilege claim, Wells Fargo amended its  
3 argument to reflect Phoenix's updated privilege log. Wells Fargo still contends that all of the withheld  
4 documents with the amended privilege log descriptions of "infringement contentions," "presentation  
5 re: license offer" and "chart re: license offer" should still be ordered disclosed because they are not  
privileged and relevant to this litigation. The court was not moved by Wells Fargo's original objections  
to the privilege log descriptions supplied by Phoenix and likewise fails to find the supplemental  
objections of much consequence, but they are so noted nonetheless.

6 2. Indeed, Phoenix said in so many words during the September 11, 2008 telephonic hearing that  
7 the voluntary disclosure of the patent application drafts was "probably bad lawyering." See Tr. 10:5-9.

8 3. The only other appellate decision on which Phoenix relies to argue that a patent attorney is not  
9 involved in competitive decision-making is In re Sibia Neurosciences, Inc., 1997 WL 688174 (Fed. Cir.  
10 1997) (unpublished). Because the Federal Circuit deemed its opinion unsuitable for publication, this  
11 court has not considered it and finds improper Phoenix's contention that any "rationale established by  
12 the Federal Circuit" in Sibia controls the instant inquiry.

13 4. At least one of the cases on which Phoenix relies considers a settlement privilege under Rule 501  
14 of the Federal Rules of Evidence, which authorizes the federal courts to determine new privileges by  
15 examining "common law principles ... in the light of reason and experience." Fed. R. Evid. 501.  
16 However, because Phoenix did not explicitly raise this basis for a privilege in its brief, the court will not  
17 consider the alleged privilege on that catchall basis.  
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